

Insights



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Build or Buy: The Best Way to Start a Bank Today

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“Build it or buy it?” The question is not just for home buyers — it also applies to those seeking to start a bank.

There are two well-established ways to start a bank and, at any given time over the past 40 years, it has usually been clear which approach made more sense.

In the 1990s, high regulatory hurdles translated into few de novos. And again, from 2008 until 2016, the Federal Deposit Insurance Corp. placed a virtual moratorium on de novos, channeling organizers toward buying an existing small bank to make it their own — a “de facto” de novo. During this period, most “new” banks were recapitalizations of troubled banks forced to sell.

Those periods are in contrast to times like the late 1990s until the beginning of the Great Recession in 2007, when new banks were relatively easy and inexpensive to form. The result was a wave of de novo charters that averaged more than 100 per year.

In the last few years, **a notable shift in regulatory attitudes has once again made it possible for organizers to obtain a de novo charter.** But some markets also feature small, healthy banks for sale — especially rural markets with little growth potential or those with aging management teams. At current bank stock values, these banks could be cost-efficiently purchased and rebuilt to form a de facto de novo. So which approach makes more sense for bank organizers today? The answer depends on a few key factors.

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